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STATE FOR AF/EPS - JANET POTASH, AF/S - KAMANA MATHUR

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SUBJECT: MALAWI INPUT FOR 2007 PRESIDENT'S REPORT ON AGOA

REF: STATE 00223

¶1. Following is Embassy's update for the annual President's Report on AGOA, in response to reftel request.

Paragraphs/topics are organized according to the report template and instructions.

¶2. Market Economy/Economic Reform: The government has generally made a commitment to a market-based economy. Domestic and foreign investment in most sectors of the economy is encouraged and is not significantly restricted; the main constraints on investment are features of a generally poor business environment. Malawi's government has continued to make progress on its privatization program, under which it has sold off 66 of 110 companies since 1996. Malawi's creditworthiness has improved dramatically since mid-2004, when the government instituted a program of fiscal discipline. In mid-2005, the government completed an agreement with the IMF for a Poverty Reduction and Growth Facility (PRGF). A new PRGF program was approved in August 2005. Broad reform objectives include liberalization of trade and foreign exchange policy, rationalization of taxes, privatization of state-owned enterprises, and civil service reform. Malawi reached the Completion Point under the Highly Indebted Poor Countries (HIPC) Initiative in August 2006, resulting in debt relief from multilateral and Paris club creditors, and simultaneously qualified for the Multilateral Debt Relief Initiative (MDRI), which cancelled all pre-2004 debt to the World Bank and the African Development Bank, and pre-2003 debt to the IMF. Over \$2 billion debt has since been cancelled, enabling the government to reduce domestic borrowing and increase expenditures for development. Fitch Ratings upgraded Ma|awi's long-term foreign currency issuer default rating (IDR) to B- with a stable outlook in March ¶2007.

¶3. Trade Liberalization: Malawi is a member of the WTO and two regional trading blocs, SADC and COMESA. The Government of Malawi is working to reduce or eliminate various tariff and non-tariff barriers. Malawi operates a liberal import and export licensing system with restrictions largely based on health, safety and national security reasons. All Current Account transactions are fully liberalized; Capital Account transactions are still controlled. Domestic protection through tariffs is gradually diminishing as the government continues to shift sources of revenue collection from customs duties to consumption and direct taxes. Implementation of a SADC Free Trade Area took effect on January 1, 2001, when member states started a phased tariff-reduction program. Malawi is, however, reported to be lagging behind on its tariff-reduction schedule.

¶4. Rule of Law/Political Pluralism/ Anti-Corruption: Malawi held peaceful presidential and parliamentary elections in May 2004. International observers considered the election

to have been free but have criticized its fairness. Parliament, traditionally a weak institution in Malawi, has been the forum for increased political pluralism since the current minority government was elected. Malawi has an independent but overburdened judiciary. The government's Anti-Corruption Bureau has actively pursued public and private corruption since the new administration took office in May 2004. A few major convictions of government officials have since been secured, despite capacity constraints within the Bureau. A number of cases are still pending. Parliament passed anti-money laundering legislation in August 2006 that is generally in line with international standards. A financial intelligence unit (FIU) has not yet been established.

¶5. Poverty Reduction: Since 1981, Malawi has undertaken economic structural adjustment programs supported by the World Bank, IMF, and other donors. Malawi met HIPC decision point criteria in December 2000 and has since developed its PRSP, which was launched in 2002. Malawi continues to work with these institutions and to use the PRSP as the central planning document for government budgeting. Previous macroeconomic instability, unstable weather conditions and a previous lack of fiscal discipline have contributed to weak growth and limited progress in reducing poverty. However, recent debt relief has enabled the Reserve Bank of Malawi to ease monetary policy, which should in turn stimulate economic activity.

¶6. Labor/Child Labor: Labor laws cover the majority of the ILO's core labor standards. Workers have the right to associate freely and to bargain collectively. The government has not been fully effective in thwarting anti-union discrimination by employers. Unions must register

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with the Ministry of Labor, but this is largely a formality. The Malawi labor code also applies to export processing zones. A lack of capacity in the government and the unions reduces the effectiveness of worker-rights protections. On child labor, Malawi's constitution and employment laws comply with IMO Convention 182. Enforcement has increased significantly during the past two years, particularly in the area of forced child labor, though resource constraints continue to hamper enforcement.

¶7. The incidence of child labor, particularly on tobacco farms, remains high. The public-private Child Labor Task Force expanded its membership among labor, private sector, and NGO organizations. In 2004, the task force developed and implemented a national Code of Conduct on Child Labor and placed child labor officers in each district of the country. There are reports that Malawian children are trafficked to other southern African countries and to Europe for purposes of forced labor and commercial sexual exploitation.

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